

The GI Bill Recruiting Bonus, Retention Onus

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ONE OF THE BEST and most enduring pieces of legislation that emerged from World War II has been the Servicemen's Readjustment Act of 1944, better known as the GI Bill. Signed into law on 22 June 1944, the Bill has profoundly affected American society in the nearly 60 years that it has been in effect. Over 21 million veterans have received educational benefits and more than 14 million have purchased homes with the Bill's home-loan guarantee program.¹

In spite of the Bill's widespread acceptance, many believe it has outlived its usefulness. In 1945, the Bill was the largest source of funding for education and training. Today, there are hundreds of scholarships, grants, work-study programs, and government loans to help finance students' educational needs. Still, the Bill's educational benefits are a major inducement for enlistments. However, too many service members leave the military at the end of their initial enlistment to take advantage of the benefits. Valuable training and readiness, in dollars and personnel, are lost.

As early as 1942, attention was given to what effect returning servicemen would have on America's economy. Massive unemployment and economic depression, exceeding the levels of the Great Depression of 1929, were expected to follow the end of the war.² The economic expansion that ended the Great Depression was stimulated by large increases in government expenditures, specifically, the defense-related expenditures of World War II. New Deal expenditures during the 1930s were too low to have any real effect on the economy.

Postwar economic expectations were not optimistic. With government spending reduced to peacetime levels, the economy was expected to shrink and return the country to a depression. The addition of millions of servicemen to the labor force was expected to generate unprecedented levels of unemployment,

and memories of the "Bonus Marchers" of 1932—veterans of World War I who demonstrated for their promised compensation—were still vivid memories.³

Some mechanism was needed to ease the transition from complete wartime mobilization to a peacetime economy. Policymakers failed to foresee a major source of spending that should have mollified their fears. Wartime rationing had generated latent customer demand and created high levels of household savings. The return to a peacetime economy would unleash this demand, sparking an unprecedented economic expansion. In the 5 years following the war, consumer spending increased over 10 percent per year.⁴

The Bill, which offered servicemen an opportunity for education and training, kept the returning servicemen from entering the labor force in mass. In 1945, the Veterans Administration paid up to \$500 per year for tuition, and \$50 per month for living expenses for veterans who served at least 90 days and had not received dishonorable discharges. Over 50 percent of eligible veterans took advantage of this opportunity.⁵ In 1947, returning veterans accounted for 49 percent of the students attending college.⁶

Educational benefits increased over time, which also increased living costs and tuition rates. Korean war and Vietnam war veterans' benefits increased with inflation. Nearly 44 percent of Korean war veterans and 67 percent of Vietnam war veterans participated in the Bill.⁷

Mission Changes

The transition to an all-volunteer force in 1973 brought change to the U.S. military manning structure. The shift to an all-volunteer force also marked a change in the purpose and philosophy of the Bill's benefits. The original benefits were a tribute and thanks for disrupting a civilian's life for several years.⁸ Justification for the Bill's home-loan

guarantee came about because veterans, serving their country overseas, had not been able to establish acceptable credit histories. Also, soldiers were paid considerably less than market wages, and their service was mandatory.

In contrast, an all-volunteer force offers recruits a wage sufficient to induce them to volunteer for military service. The Bill's benefits package is no longer a reward for service rendered but an inducement to serve and has become a significant part of recruiters' pitches.⁹ The educational benefit is deferred, however, and much like the retirement benefit, enters into the enlistee's decision to stay in service.

While retirement benefits encourage long-term commitments to the military, educational benefits have a perverse incentive that tends to discourage veterans from reenlisting. This unintended result is not by design. Participation in today's program is completely voluntary. Participants contribute \$100 per month during their first year of active duty. In return, they receive up to \$672 per month for college expenses for 36 months—a total of over \$24,000. The contribution is not refundable; it is strictly "use it or lose it." The educational fund is available for 10 years after the member's discharge.¹⁰

The program is unsurpassed as a savings plan for college tuition. The initial \$1,200 deposit and the first \$672 payment, separated by 5 years, puts the rate of return at 44.6 percent.¹¹ The service member must leave the service to take full advantage of the investment, however. While personnel can use their educational benefits while on active duty, regular changes in duty stations, temporary duty at other installations, and regularly scheduled field exercises discourage personnel from doing so.

The inducement to leave the military service is a severe weakness in the current Bill. The benefit's structure must be redesigned to provide the maximum incentive for service members to remain in uniform. In today's high-tech military, well-trained troops are the most difficult resource to replace, especially in this era of downsizing and budget retrenchment. In 1995, recruit and specialized training totaled \$7.43 billion, which represented over 50 percent of the total training budget.¹² Nonretention of trained personnel represents a permanent loss of time and dollars as well as a degradation of readiness.

Economic theory postulates that monetary wages are a more efficient and less costly form of compensation than are wages paid in-kind.¹³ Service members might prefer to have more in salary than an equivalent amount in restricted educational ben-

efits. Those who want more education can get it, and those whose educational aspirations are not as high will benefit as well.

Proposed Changes

The Bill has permanently changed the face of higher education. Before World War II, college educations were primarily for the wealthy. All others were too busy working full-time jobs. With the exception of athletic scholarships, there were few sources of funding. The passage of the Bill changed this, and millions of veterans took advantage of the opportunity.¹⁴

Today, numerous sources of funding for students who want to attend college are available, and many needs-based programs are also available.¹⁵ In addition, federal work-study funds are available for jobs on campus, and many states provide scholarships and loans for college-bound students.¹⁶

Given the multiple sources of educational funding available, it is questionable whether today's Bill is needed. Furthermore, a philosophical difference exists between today's veterans and the Bill's initial recipients. Those veterans' lives had been truly disrupted. Today's volunteers willingly choose to join the military.

One argument for retaining the Bill is that the educational benefits compensate for the frequent moves the military requires. However, frequent moves should not come as a surprise to the volunteers and, therefore, should not require supplementary compensation. Does military service have unique attributes that justify the additional compensation of the educational benefits? After all, military personnel go in harm's way on America's behalf. However, the same can be said for police officers and firefighters.

From an equity standpoint and an efficiency perspective, the Bill's educational benefits should be modified significantly. The purpose of the U.S. military is to defend America. Therefore, educational benefits, just as health care and retirement benefits do, should encourage quality people to remain in uniform.

One way to revamp the educational benefit is to make it easier for active duty service members to acquire additional education. Two obstacles are frequent moves and uncertain daily schedules. A simple way to remove these obstacles would be to provide the service member educational leave with pay. By providing time out of uniform, service members could attend schools of their choice without worrying if they would be able to finish the program. They would continue to draw full pay but would be re-

sponsible for their own educational expenses. Time at school would count as time in grade for advancement, but it would not count toward years needed for retirement.

To ensure that the program would not be used as an all-expense paid vacation, service members would agree to defer their retirement for the time they were at school, multiplied by some factor greater than one. For instance, if the factor were 1.5, and the member took a 2-year educational leave, he would need 23 years of service before retiring with benefits. His retirement pay would be based on 23 years of service, since time on educational leave would count toward, but postpone, his retirement. This would encourage service members who want to further their education to remain in uniform. The military would get better-educated personnel and would have them longer. The military would be paid back for the educational leave at a rate of better than one to one.

Service members who did not choose additional education would not be discriminated against. Currently, service members who do not participate in the Bill are not given other benefits in its place. With the educational leave system, service members who opted not to participate in the program would be able to retire with benefits at 20 years.

Implementing this program would not be without its problems. The military would need to establish a mechanism to determine who would receive the educational-leave benefit. As with any benefit, competition would ensure that only the best and brightest receive it.

Another potential problem would be that many service members would already be eligible for educational benefits. Allowing service members to either retain their current benefits or receive a refund of their \$1,200 contribution—thereby making them eligible for the new educational-leave program—

could solve the problem.

An educational-leave program might seem implausible, but it is similar to the U.S. Navy's Enlisted Educational Advancement Program (EEAP), where service members receive 24 months to attend college. They earn full pay and are responsible for their own educational expenses.¹⁷ One difference between EEAP and the proposed educational-leave program is the payback requirement. With EEAP, the service member's 2 years at school counts toward their 20 years retirement requirement, allowing the service member to retire after 20 years of service. The result of this policy is that the Navy does not receive the service member's services for any additional period once they leave campus and return to uniform.

Success Rate

The Bill's success rate can be measured by the high participation rate of new enlistees. However, since training and replacement costs are quite substantial, a better measure of success would be the number of participating service members who are promoted to higher ranks or who reenlist. High participation rates might be the result of self-selection. People are persuaded to enlist in the military because they want to earn the educational benefits the Bill offers and get out rather than make the military a career.

By replacing the current Bill's educational benefits with an educational-leave program, enlistees would still be attracted by the promise of a subsidized education, and the military would retain trained personnel longer. The current EEAP is highly selective and competitive, which suggests that by expanding the program, it would be well received by those currently in uniform. In addition, it would serve as an effective recruiting tool. More important, it would serve as a highly effective retention device. **MR**

NOTES

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